

**EMPRESARIA GROUP PLC**

**Report and Financial Statements**

**31 December 2003**

**Deloitte & Touche LLP  
Crawley**



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REPORT AND FINANCIAL STATEMENTS 2003

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**REPORT AND FINANCIAL STATEMENTS 2003**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

M W R Hunt  
T J D Sheffield  
N C Hall-Palmer

**SECRETARY**

M W R Hunt

**REGISTERED OFFICE**

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6-8 London Road  
Crawley  
RH10 8JE

**BANKERS**

HSBC  
P O Box 120  
49 Corn Street  
Bristol  
BS99 7SP

**ADVISERS**

Field Fisher Waterhouse  
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London  
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**INDEPENDENT AUDITORS**

Deloitte & Touche LLP  
Chartered Accountants  
Crawley

## FINANCIAL HIGHLIGHTS

### Overview of Performance

£ 000's	2003	2002	2001	2000	1999
<b>Turnover</b>	<b>29,367</b>	<b>22,902</b>	<b>18,938</b>	<b>12,788</b>	<b>4,796</b>
<b>Operating Profit</b>	<b>817</b>	<b>709</b>	<b>732</b>	<b>589</b>	<b>151</b>
<b>Adjusted Operating Profit *</b>	<b>1,234</b>	<b>927</b>	<b>527</b>	<b>599</b>	<b>151</b>
<b>Adjusted Profit Before Tax *</b>	<b>1,113</b>	<b>830</b>	<b>487</b>	<b>574</b>	<b>95</b>
<b>Adjusted Earnings/(Loss) per share (pence) *</b>	<b>1.55</b>	<b>1.13</b>	<b>0.45</b>	<b>0.95</b>	<b>(0.24)</b>
<b>Dividend per share (pence)</b>	<b>0.15</b>	<b>0.1</b>	<b>0</b>	<b>0</b>	<b>0</b>

\* Figures based on underlying profits, adjusted for goodwill, and exceptional costs. See reconciliation on page 38.

## HEADLINES

- **Turnover up 28% year on year**
- **Average annualised three year turnover growth of 32%**
- **Adjusted profit before tax up 34% year on year**
- **Average annualised three year Adjusted PBT growth of 25%**
- **Adjusted EPS Growth of 37% year on year**
- **Average annualised three year Adjusted EPS growth of 17.5%**
- **Basic EPS Growth of 85% year on year**
- **Dividend per share up 50% year on year**

## CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

Following are the results of Empresaria Group plc for the year ended 31 December 2003. During this period the Group has demonstrated strong sales and profit growth, reinforcing its position as a fast growing recruitment company focussing on individual niche staffing markets.

### Results

**Turnover:** Turnover for the year was up 28% to £29.4m (2002: £22.9m). Turnover growth has averaged an annual 32% over the last 3 years. Net fee income (gross profit) was £10.6m (2002: £8.6m), a rise of 23%.

**Profitability:** Excluding amortisation of goodwill and exceptional costs, profit before taxation was up 34% at £1,113k (2002: £830k). Adjusted profits before taxation have averaged annualised growth of 25% over the last three years. Adjusted earnings per share were up 37% at 1.55 pence (2002: 1.13 pence). Notwithstanding that the Group considers the adjusted results to be the most appropriate measure of performance, the statutory operating profit figure also increased by 15% from £709k to £817k.

**Cash flow:** During the year the Group generated operating cash flow of £2.0m (2002: £0.2m). Net debt at the year end was £1.3m (2002: £1m).

**Dividend:** The directors are recommending payment of a dividend of 0.15 pence per share (2002: 0.1 pence), an increase of 50%.

These results reflect a consistency of growth over time, and a level of performance beyond that achieved by many in our sector during what has been widely reported as a difficult two to three year trading period.

### Trading performance

The year 2003 was one of steady progress. We achieved strong sales growth across all market sectors with the exception of Financial Services where market conditions, particularly banking recruitment, remained difficult for most of the year. Particular mention should be given to our Public Sector businesses that grew sales by 76% and now make up 17% of group sales. We enjoyed strong profit growth across a number of companies, again particularly in the Public Sector. Profits could have been higher but for our continued commitment to build capacity across the group. We now have a total staff of 190 of which over 140 are fee earners. Organic group turnover (i.e. before the impact of acquisitions) and profit growth were 22% and 11% respectively on an adjusted basis in the year.

### Start ups and acquisitions

In 2003 we started one new business, DriveLink Midlands, extending our contract driving brand away from its South East base, operating from branches in Nottingham and Leicester.

We made two acquisitions in the year. As reported last year, in January we acquired McCall Associates ("McCall"), a leading supplier of recruitment services to the recruitment industry, for £1.5m in conjunction with the incumbent management team. McCall has been operating since 1992, making it one of the longer established "recruitment to recruitment" companies. We believe it to be the largest by turnover in the UK. It has offices in London, Waltham Cross, Manchester and Edinburgh. In addition to recruitment services to the recruitment industry, it offers a company sale/purchase brokering service within the sector. The McCall team possesses a combination of industry knowledge and contact network that has already proven its value in the pursuit of growth across the Group.

McCall contributed Earnings Before Interest Tax and Amortisation (EBITA) of £269k in the year on turnover of £1.4m.

In November we acquired, through our subsidiary TeamSales the goodwill and assets of Hadleigh Sales Link ("Hadleigh"), a bolt-on acquisition in the same field, providing contract sales staff to the house building industry. Consideration was £60k cash with provision for deferred consideration of up to £30k. The main shareholders of Hadleigh continue to work within the business.

**CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT (continued)****Start ups and acquisitions (continued)**

Since 1 January 2004 we have made two further acquisitions. The first of these was FastTrack Management Services ("FastTrack"), a provider of contract recruitment services to the construction industry with offices in Watford and Blackburn. The acquisition represents a further step towards developing a strong national presence in this sector. FastTrack has a particular focus on the London and South East M&E contract recruitment market as well as operations in the North. In 2003 FastTrack made £140k pre-tax profit on turnover of £12.5m. We expect the profit performance for the company to be significantly improved in 2004. We acquired a 66% shareholding in FastTrack for initial consideration of £1.1m with potential further consideration of up to £880k being payable dependent on financial performance in 2004 and 2005. Of the initial consideration, £1m was paid in cash and the balance in shares. Of the potential deferred consideration, a maximum of £250k is payable in cash with the balance in shares. The current FastTrack management team retain the balance of the shares in the company.

The second acquisition made in 2004 has been a 66% shareholding in Bar 2, a provider of payroll administration services based in Chesham, for nominal consideration. In the nine months to 31 December 2003 the company made Profit before Tax of £22k on sales of £340k. The company provides administrative support to contractors and temporary workers and helps staffing company clients reduce the cost of payroll operations. We anticipate that Bar 2 joining the group will add value to our contract recruitment businesses through the provision of its services to our contractor base and contract recruitment subsidiaries as well as create opportunities for the growth of Bar 2 itself.

**Disposals and restructuring**

During the year we also took a number of management decisions involving the sale, closure or restructuring of a number of businesses in the group that were either underperforming, or deemed best suited outside rather than inside the group. These changes had an understandable short term impact on profitability but will deliver benefits in 2004.

**Sector overview****Financial services**

Turnover in 2003 was £3.1m (2002: £3.6m) down 14%. Market conditions have been difficult within the Financial Services sector, principally in banking recruitment. We have retained faith in and maintained support for the strong management team we have in place but held back from further investment until market conditions and financial performance improve. I am pleased to be able to report on signs of significant, if sporadic, improvements in the trading environment. This has had a substantial positive impact on performance in the last quarter of 2003. This upward trend has continued into 2004, providing confidence that we should experience a significantly improved financial performance this year.

**Supply chain**

Turnover in 2003 was £7.4m (2002: £6.5m) a rise of 14%. We continue to invest in the expansion of our contract driving brand, DriveLink. DriveLink has developed a strong brand presence in the competitive South East offering a focused contract HGV driver recruitment service to the third party logistics sector and larger in-house distribution operations. The third party sector market place is itself changing with increasing centralisation of procurement. We are responding to both the opportunity and threat of the increased prevalence of regional and national contracts by developing closer relationships and working with these larger clients in support of these initiatives. To do this effectively we are investing in a substantial branch expansion programme. In 2003 we established offices in Nottingham and Leicester, separately capitalised in a new company, Drivelink (Midlands). In the first quarter of this year we have opened 5 new branches in the West, Midlands and North of England. This growth strategy will hold back profits in the sector in 2004 but result in a stronger business with the potential for substantial returns in future years.

**CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT (continued)****Sector overview (continued)****Construction, property services and engineering**

Turnover in 2003 was £10.4m (2002: £7.6m) a rise of 37%. We continued to make strong progress from our contract recruitment businesses but experienced some weakness in our permanent recruitment operations.

We have two contract recruitment brands. The first of these, TMR, provides mechanical & electrical (M&E), construction and shop fitting trades to the construction industry. During the year TMR (Midlands), focussing primarily on the shop fitting trades, grew turnover and contributed profits in its first full year of operation. It also absorbed the existing M&E contract operations of the less successful TMR (Bristol) which we decided to discontinue. We experienced marginal growth in contract recruitment turnover at our TMR (Maidstone) operation. The acquisition of FastTrack in 2004 accelerates the growth of our operations in this sector. We are making good progress integrating FastTrack within the group and are currently reviewing both brand and operations strategies with a view to growing one national brand with a coordinated marketing strategy.

Our second contract recruitment brand is TeamSales. TeamSales has a market leading position in the South East providing contract sales staff to the house building industry. Our plan is to grow a national brand and, to this end, we acquired the goodwill and assets of Hadleigh Sales Link in November. Hadleigh has an office in Wokingham and a particular market focus on the Thames Valley. We also set up a sales office in Lincolnshire to explore market opportunities in the East Midlands and North.

Growth plans for both contract recruitment brands are assisted by the buoyant market conditions in the broader construction sector.

Our permanent recruitment businesses fared less well in the year. TMR permanent recruitment operations in our Maidstone office declined in 2003 and we made the decision earlier this year to focus solely on contract recruitment at that branch. MC<sup>2</sup> started 2003 poorly, resulting in a restructuring and change of management. The new team successfully transformed the fortunes of the company during the year assisted by a number of contract wins and strong demand for their services and we are expecting improved contribution in 2004.

Following the acquisition of FastTrack, this sector now accounts for approximately half of Group turnover.

**Public Sector**

Turnover in 2003 was £5.1m (2002: £2.9m) a rise of 76%. We saw growth in turnover and profit within the sector with both Social Work Associates and Healthcare First strengthening their respective contract recruitment market positions in contract social workers and professions allied to healthcare. Both markets are driven by supply constraints although each are evolving rapidly as a consequence of improved Government procurement practices and increased competition. Social Work Associates is now well positioned in the spot recruitment market place in the South East and our plan is to extend our coverage to other regions. Healthcare First grew rapidly in its second year of operation and increased its headcount from 3 to 10. It established a new overseas sourcing operation in South Africa to add to its existing office in Australia and set up a new branch focussing on specialist nursing.

**CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT (continued)****Specialist brands**

In 2003 turnover was £3.3m (2002: £2.1m) a rise of 57%. Our Specialist Brands sector covers companies that either operate in specific market niches or companies that have the potential to grow and in time create new market sector categories. The two principal constituents are Greycoat Placements and McCall. Greycoat continues to maintain its market leading position in the domestic staffing market place, extending its service this year to include training services under the Greycoat Academy banner. McCall, during its first year as an Empresaria Group member, established a new revenue stream through the provision of executive search to the recruitment industry under the Gerard Stewart brand.

The focus of our disposal and restructuring programme has been on companies in this sector. We made the decision to sell our interest in VPS (Secretarial) and the McGhee Davis (Accountancy) business to the management teams resulting in neither material financial gain nor loss on sale. The decision was based on our view of the growth prospects of the companies and the collective belief that each would thrive better outside rather than inside the group.

Our Alanti (IT) business started the year positively before slipping backwards into losses half way through the year resulting in our decision to move the remaining contract recruitment business to Lindsey Morgan Associates (banking) and close our office in Surrey.

**Group Strategy**

Our aim is to grow a profitable, sustainable, high quality staffing group built on the philosophy of management equity.

**Philosophy:** The premise for setting up Empresaria in 1996 was the conviction that in a people business such as recruitment, the way to grow a sustainable, successful company is to align the interests of key people and shareholders by offering them the opportunity to acquire a meaningful stake, at fair value, in the business they run and for which they assume responsibility. Our structure and strategy stem from this philosophical base.

**Structure:** The Group is currently made up of 17 individual trading companies split into the following five broad market sectors:

- Financial Services
- Supply chain
- Construction, Property Services and Engineering
- Public Sector
- Specialist brands

Each company is operationally autonomous within a supportive group framework, with strong financial control exerted from a small head office.

Each time we set up a new company we co-invest alongside the management team, the individual directors and fee earners acquiring up to 49% of the share capital. In the case of acquisitions, we look for opportunities where existing management wish to remain in place either with a pre-existing equity stake or with a newly acquired holding.

The shareholders' agreements in place in each company allow for Empresaria to acquire the minority shareholdings, generally between 5 and 10 years after start up/acquisition, at a pre-agreed valuation based on a multiple of average historic post-tax profits of that company over 2 or 3 years. If we do acquire minority shareholdings we can decide to offer consideration in either cash or shares. If shares are issued, the structure of the acquisition by Empresaria is designed to be earnings enhancing with the formula for valuing the subsidiary shareholding being a multiple at or below that of the Group.

Group development is overseen by an Executive Committee which meets 5 times annually and reports to the Board. The Committee is made up of board members and Managing Directors of subsidiary companies, each representing one of the five market sectors.

**CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT (continued)****Group Strategy (continued)**

**Strategy:** Our strategy is to build a portfolio of specialist staffing brands, each showing high growth in the sectors in which they operate. We have deliberately sought to develop a balanced portfolio of brands across a number of different sectors in order to mitigate against our exposure to different conditions affecting each sector and to allow us to invest financial and management resource depending on their relative prospects.

We focus on specialist staffing niche businesses, as opposed to generalist commercial and industrial recruitment for a number of reasons. Focussing on one market enables a company to develop knowledge and skills and potentially to offer a consistent quality of service over and above that of a generalist recruiter. By differentiating through specialisation we seek to generate higher margins and stronger client relationships.

We develop brands not only on sector lines but also based on methodology. A search and selection practice will position itself in its market place very differently to a contract recruitment company. Each will operate very differently but, hopefully, complement each other. By way of illustration, Mansion House Executive and Lime Street Recruitment in the financial services sector; both focus on insurance recruitment, both work together with the same clients but one offers retained search and selection services and the other contingent agency solutions.

**Growth:** There are three strands to our growth strategy. Firstly, we seek to increase the capacity and, as a consequence, the profitability and growth potential of our existing businesses. This is supported by our focus on delivering the benefits of cross-selling between the businesses and capitalising on our national coverage. Secondly, we look to invest in start up companies, backing teams of proven managers and consultants and co-investing in new businesses with them. Thirdly, we seek to make strategic acquisitions of businesses that complement existing group operations (whether through sector focus, services provided or geographical coverage) or extend our coverage into new specialist staffing market sectors where we perceive the opportunity to build a strong market position.

When assessing whether to start a company or acquire a company in a new sector we consider the size of the sector and the growth prospects of the individual company. We need to see the potential to build a substantial business.

**Our Board****David Telling**

It was with great sadness that we reported in October the retirement from our board of David Telling for health reasons. David was the Empresaria Chairman from our early days in 1996 and provided, through his success at MITIE, the inspiration for the adoption of the management equity philosophy as the corner stone for building a successful recruitment group. During the first formative years of the group he invested levels of commitment and time that far exceeded those expected of a non-executive Chairman, particularly an unpaid one. I feel privileged to have worked with him and to have counted him as a friend. David died on 31 October 2003.

**New board members**

It is our intention to appoint a new Chairman and possibly additional non-executive directors during the course of this year.

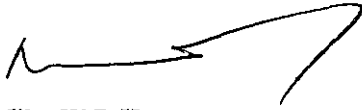
**Our People**

Our business relies on the quality, creativity and commitment of our people. Our success is due to their unstinting efforts and professional integrity. I would like to express my thanks to everyone working within the Group for contributing to our success this year and to the growth of an exciting young company.

**CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT (continued)**

**Our Prospects**

We continue to benefit from our exposure to different market sectors with the consequent diversification of risk and diversity of opportunity. We start each year stronger than the last and with more established positions within each of our chosen markets. We have a clear vision and strategy underpinned by a guiding philosophy. We are experiencing recovery in industry sectors that have been weak for the last few years and are building in increased capacity to allow for both improved trading conditions and increase in market share. Trading during the course of the first quarter has been stronger than anticipated and, assuming no dramatic changes within the broader economic environment, I expect us to maintain our momentum and enjoy another successful year.



**Miles W R Hunt**

26 April 2004

## FINANCIAL REVIEW

### Financial Performance

#### Turnover

Group turnover rose by 28% in the year, continuing a record of consistent sales growth over the last five years.

#### Profitability

The Group uses adjusted profit before taxation (PBT) as its principal measure of operating performance. Profits before tax are adjusted to remove the effects of goodwill amortisation and any exceptional costs or gains incurred during the year. A reconciliation between the statutory and adjusted profit is provided on page 38.

Adjusted PBT for the year rose by 34% to £1.1m (2002 - £830k).

#### Exceptional costs

Exceptional costs of £157k were incurred in the year, of which £99k related to the reorganisation of MC<sup>2</sup> Management Consulting Ltd and associated redundancy costs. A further £45k related to legal costs at MVP Ltd, whilst the balance of £13k arose out of a dilution of the Group's interest in various subsidiary companies and is explained under the Minority Interests heading.

#### Taxation

The effective rate of corporation tax has reduced from 41% in 2002 to 36% in 2003. The decrease is largely attributable to the recognition of deferred tax assets in respect of subsidiary trading losses available to carry forward.

Deferred taxation has been provided on timing differences to comply with FRS 19.

#### Minority Interests

Over the course of 2003, a number of the Group's subsidiary companies redeemed loan stock to the value of £96k (2002 £131k). The consideration was satisfied by the issue of shares in the respective subsidiary company.

An exceptional charge in the accounts of £13k (2002 £100k) reflects the reduction in Group's percentage shareholding in these businesses.

The Group's share of profit after tax rose from 49% in 2002 to 63% in 2003, mainly reflecting the move to profitable trading of the two businesses established in 2002 (TMR Midlands and Healthcare First) and the full year benefit of the Group's increased share in the profits of Greycoat Placements Ltd and Mansion House Limited. The Group increased its percentage shareholdings in the latter businesses in July 2002.

#### Earnings per share

Earnings per share, adjusted for the effects of goodwill amortisation and exceptional costs, rose by 37% to 1.55 pence (2002 1.13 pence).

#### Dividends

The Directors have recommended the payment of a dividend of 0.15 pence per share. This represents a 50% increase over the previous year and is reflective of the Directors' intention to maintain annual growth in dividend income to shareholders.

### Acquisitions and disposals

#### Acquisitions

During the year the Group acquired two new businesses and significantly increased its shareholding in an existing subsidiary, as detailed below:

**FINANCIAL REVIEW (continued)****Purchase of the McCall business**

McCall provides recruitment services to other recruitment businesses and was purchased in January 2003 at a cost of £1.5m. The consideration was funded by a combination of cash and a £1.2m loan, repayable over 5 years. The business generated satisfactory profits in its first year in the Group.

**Increased holding in Technical & Management Resources Limited ("TMR")**

In July 2003, Empresaria issued 825,000 shares to purchase 19% of TMR, based in Maidstone, from the minority shareholders. Based on the mid price of the Group's shares on OFEX on the date of transaction, the consideration given was valued at £144k.

The Group now owns 81% of the company.

**Purchase of Hadleigh Sales Link**

The fixed assets and goodwill of the above business was purchased for a consideration of £60k, plus deferred consideration of up to £30k, by TeamSales Limited to enhance its market position in the retail property sales market in the South and East of England.

**Post year end purchase**

Following the end of the year, the Group acquired a 66% interest in FastTrack Limited, a company providing temporary staff to the construction and property services sector. An initial consideration was paid of £1m in cash and £100k in Group shares. Further deferred consideration of up to £880k may be payable in cash and shares if the company meets clearly defined profitability targets.

**Disposals**

During the year the Group made two disposals, in selling its holding in VPS Ltd and the McGhee Davis business to the minority shareholders.

**Goodwill**

The carrying value of goodwill in the Group Balance Sheet increased by £1.47m, from £1.54m to £3.01m, reflecting an increase in the underlying goodwill cost of £1.76m. The major constituents of this increase arose from the acquisition of the McCall business and the increased shareholding in TMR Ltd.

Goodwill is amortised over its useful economic life up to a maximum period of 20 years. The Directors regularly review the carrying value of goodwill for appropriateness.

**Treasury Management****Cash Flow**

Net cash of £2.0m (2002 – £0.2m) was generated from operating activities.

During the year the Group decided to adopt non-recourse factoring for its three largest factored businesses, all of which operate in sectors where the risk of bad debt is higher than the Group norm.

The effect of this change is that the relevant trade debts and associated factoring creditors in these companies are derecognised in the group balance sheet. The value of non-recourse factoring treated in this way was £2m at the end of 2003 (2002 – £nil).

## FINANCIAL REVIEW (continued)

### Cash Management

The Group maintains a range of facilities appropriate to the funding of its strategy of expansion by a mixture of organic growth and acquisition.

Major acquisitions are funded through a mixture of term loans and the issue of share capital, whereas organic growth and business start ups are either funded out of operational cash flow or using factoring and invoice discounting where appropriate.

At the year end, the Group's financing arrangements comprised:

- Cash at bank of £1m;
- an unutilised overdraft facility of £1m;
- An outstanding term loan of £1m repayable by monthly instalments over the next four years; and
- Amounts owed in respect of factoring and invoice discounting of £1.3m.

To fund the acquisition of FastTrack Ltd in early 2004, the Group took out a further bank loan of £1m, repayable at the end of four years.

The Group banks with HSBC Bank plc.



**Nick Hall-Palmer**

26 April 2004

## CORPORATE GOVERNANCE

The Board is committed to ensuring that sound principles of corporate governance are applied throughout the Group and is structuring its approach to achieve a position commensurate with the size of the business and its status as a non listed company.

As the Group increases the size and complexity of its operations, the Group adapts its approach to Corporate Governance. Whilst there is no requirement to provide corporate governance disclosures due to the company's non listed status, the major elements of the Group's approach are listed below:

### Systems of internal control and their effectiveness

The directors acknowledge their responsibilities for the Group's system of internal control. Such a system can provide reasonable, but not absolute, assurance against material misstatement or loss. As in previous years the following key controls existed throughout the year:

- Empresaria Group plc's operations are structured into profit centres. Annual budgets are prepared for each profit centre and approved by the Board of Directors. The performance of each profit centre against budget is monitored on a monthly basis. Significant variances against budget are thoroughly investigated.
- The Board of Directors meets every two months to review the performance of the Group. Members of the Board of Directors meet formally with operating company management on a regular basis to review business performance and to address operational and strategic issues.
- There existed within the Group throughout the year under review appropriate levels of delegated authority covering the key areas of the Group's operations.

In the light of the Group's continued growth, the Directors introduced a risk assessment and management initiative model towards the end of 2003. This involves identifying and managing the key financial and non-financial risks, both at Group and operating company level. It is planned to complete this process by the end of 2004.

Improvements will continue to be made to embed internal control and risk management further into the operations of the business and to deal with areas of importance which come to management and the Board's attention.

### Board of Directors

The Group has always sought to maintain a balance between Executive and Non-executive Directors in keeping with its size. This has resulted in a Board comprising two Executive and at least two Non-Executive Directors.

In October 2003, the retirement through illness of David Telling deprived the Group of its Non-Executive Chairman and reduced to one the number of Non-Executive Directors on the Board. As an interim measure, the Group Chief Executive has assumed the additional role of Chairman, until a suitable successor for David is identified.

The Group is committed to appointing a new Non Executive Chairman and is also considering the need for further appointments of Non Executive Directors.

### Board Committees

The Group has the following Committees in operation.

#### Audit Committee

The Audit Committee is chaired by the Group's Non Executive Director, Tim Sheffield and meets at least once a year to consider matters relating to accounting, internal control and the statutory audit.

The Chairman of the Committee meets the external auditors without the presence of the Group Finance Director.

The Group does not currently operate an internal audit function as the directors do not believe that, given the current size and complexity of the Group, the cost would deliver appropriate benefits.

## **CORPORATE GOVERNANCE (continued)**

### **Remuneration Committee**

The Remuneration Committee is chaired by the Group's Non Executive Director, Tim Sheffield. The remuneration of the Executive Directors is reviewed annually and approved by the Committee Chairman.

### **Other Committees**

In Addition to the Board Committees, a Group Executive Committee meets every two months. The Executive Committee comprises members of the Group Board together with operating company management representing the Group's various sectors and is responsible for reviewing and approving items of operational policy and assisting in the strategic expansion of the Group.

### **Going concern**

The directors have formed the judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going-concern basis in preparing the financial statements.

**DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

**PRINCIPAL ACTIVITIES**

The principal activity of the group is the provision of recruitment services. The principal activities of the company were those of investing in subsidiaries acting as recruitment companies and providing management services.

**REVIEW OF THE BUSINESS AND FUTURE PROSPECTS**

This is covered by the Chairman and Chief Executive's statement.

**RESULTS AND DIVIDENDS**

The results for the year are set out on page 18. The directors recommend the payment of a dividend of 0.15p per share (2002 - 0.1p). If approved, the dividends will be paid on 16 August 2004 to members registered on 16 July 2004.

**DIRECTORS**

The following directors have held office since 1 January 2003:

**Executive Directors**

M W R Hunt  
N C Hall-Palmer

**Non-Executive Directors**

T J D Sheffield  
D M Telling (resigned 6 October 2003)

**DIRECTORS' INTERESTS**

The beneficial interests of the directors serving at the year end in the shares of the company were as stated below:

	Ordinary shares of 2p each	
	31 December 2003 No.	1 January 2002 No.
M W R Hunt	6,993,923	6,823,333
T J D Sheffield	583,333	583,333
N C Hall-Palmer	500,000	500,000

T J D Sheffield holds a further interest in 11,633,333 (2002 – 11,633,333) shares by virtue of his interest in the share capital of Sheffield-Haworth Limited.

The interests of M W R Hunt include 1,116,751 (2002 – 1,080,000) shares by virtue of the shares held by his wife.

The interests of directors in other group companies are disclosed in note 27.

**POLICY AND PRACTICE ON THE PAYMENT OF CREDITORS**

The company does not follow any specified code or standard on payment practice. However, it is the company's policy to negotiate terms with its suppliers and to ensure that they are aware of the terms of payment when business is agreed. It is the company's policy to abide by these terms. Suppliers are paid on average within 30 (2002 – 30) days.

**DIRECTORS' REPORT (continued)**

**POST BALANCE SHEET EVENT**

On 1 January 2004, the group completed its 66% acquisition of Fast Track Management Services Limited for consideration made up of cash of £1million, shares of £100,000 and deferred consideration up to a maximum of £880,000.

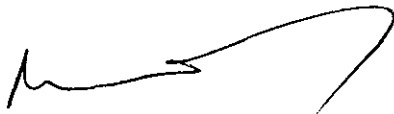
Also on 1 January 2004 the group acquired 66% of Bar 2 Limited for nominal consideration.

**AUDITORS**

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

A partner in Deloitte & Touche LLP is an executor of an estate which holds 395,000 ordinary shares of 2p each in Empresaria Group plc. This represents 1% of the issued share capital of the company.

Approved by the Board of Directors  
and signed on behalf of the Board



M W R Hunt

Director

26 April 2004

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EMPRESARIA GROUP PLC**

We have audited the financial statements of Empresaria Group plc for the year ended 31 December 2003 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, and the related notes 1 to 27 together with the notes to the consolidated cash flow statement. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

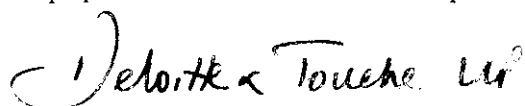
### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion, the financial statements give a true and fair view of the state of the affairs of the company and the group as at 31 December 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Deloitte & Touche LLP**  
Chartered Accountants and Registered Auditors  
Crawley

26 April 2004

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**Year ended 31 December 2003**

	Note	2003 £'000	2002 £'000
<b>TURNOVER</b>	2		
Existing operations		27,132	21,845
Acquisitions		1,402	-
		<u>28,534</u>	<u>21,845</u>
Continuing operations		28,534	21,845
Discontinued operations		833	1,057
		<u>29,367</u>	<u>22,902</u>
Total turnover	3	29,367	22,902
Cost of sales	3	(18,778)	(14,299)
		<u>10,589</u>	<u>8,603</u>
<b>GROSS PROFIT</b>		10,589	8,603
Administrative expenses - normal		(9,628)	(7,760)
- exceptional	6	(144)	(134)
		<u>(9,772)</u>	<u>(7,894)</u>
Total administrative expenses	3	(9,772)	(7,894)
<b>OPERATING PROFIT/(LOSS)</b>	6		
Existing operations		696	773
Acquisitions		171	-
		<u>867</u>	<u>773</u>
Continuing operations		867	773
Discontinued operations		(50)	(64)
		<u>817</u>	<u>709</u>
Total operating profit	3	817	709
Interest receivable and similar income	7	62	55
Interest payable and similar charges	8	(196)	(252)
		<u>683</u>	<u>512</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		683	512
Tax on profit on ordinary activities	9	(246)	(208)
		<u>437</u>	<u>304</u>
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		437	304
Minority equity interests		(163)	(155)
		<u>274</u>	<u>149</u>
<b>PROFIT ON ORDINARY ACTIVITIES ATTRIBUTABLE TO THE MEMBERS OF EMPRESARIA GROUP PLC</b>		274	149
Equity dividends proposed	10	(56)	(37)
		<u>218</u>	<u>112</u>
<b>Retained profit for the year transferred to reserves</b>	18	218	112
<b>Earnings per share (pence)</b>			
Basic and diluted	22	0.74	0.42

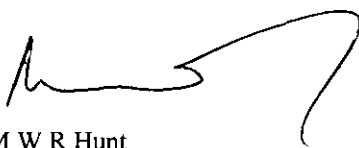
There are no recognised gains and losses for the current and preceding years other than as stated above.

**CONSOLIDATED BALANCE SHEET**  
**31 December 2003**

	Note	£'000	2003 £'000	£'000	2002 £'000
<b>FIXED ASSETS</b>					
Intangible assets	11		3,014		1,544
Tangible assets	12		283		257
			<u>3,297</u>		<u>1,801</u>
<b>CURRENT ASSETS</b>					
Debtors	14	5,232		5,261	
Cash at bank and in hand		<u>1,008</u>		<u>2,187</u>	
		6,240		7,448	
<b>CREDITORS: amounts falling due within one year</b>	15	<u>(4,370)</u>		<u>(5,362)</u>	
<b>NET CURRENT ASSETS</b>			<u>1,870</u>		<u>2,086</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			5,167		3,887
<b>CREDITORS: amounts falling due after more than one year (including convertible debt)</b>	16		<u>(810)</u>		<u>(99)</u>
<b>NET ASSETS</b>			<u>4,357</u>		<u>3,788</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	17		751		734
Share premium account	18		1,668		1,540
Profit and loss account	18		<u>966</u>		<u>748</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>	19		3,385		3,022
Minority interests					
Equity interestS			<u>972</u>		<u>766</u>
			<u>4,357</u>		<u>3,788</u>

These financial statements were approved by the Board of Directors on 26 April 2004.

Signed on behalf of the Board of Directors

  
M W R Hunt  
Director

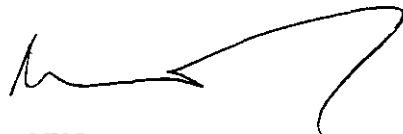
  
N C Hall-Palmer  
Director

**COMPANY BALANCE SHEET**  
**31 December 2003**

	Note	2003 £'000	2002 £'000
<b>FIXED ASSETS</b>			
Tangible assets	12	30	24
Investments	13	2,867	2,516
		<u>2,897</u>	<u>2,540</u>
<b>CURRENT ASSETS</b>			
Debtors (including amounts falling due after more than one year of £700,000 (2002 - £nil))	14	1,810	653
Cash at bank and in hand		-	1,500
		<u>1,810</u>	<u>2,153</u>
<b>CREDITORS: amounts falling due within one year</b>	15	<u>(1,381)</u>	<u>(2,398)</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>429</u>	<u>(245)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		3,326	2,295
<b>CREDITORS: amounts falling due after more than one year</b>	16	<u>(778)</u>	<u>-</u>
<b>NET ASSETS</b>		<u>2,548</u>	<u>2,295</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	17	751	734
Share premium account	18	1,668	1,540
Profit and loss account	18	129	21
<b>EQUITY SHAREHOLDERS' FUNDS</b>	19	<u>2,548</u>	<u>2,295</u>

These financial statements were approved by the Board of Directors on 26 April 2004.

Signed on behalf of the Board of Directors



M W R Hunt  
 Director



N C Hall-Palmer  
 Director

**CONSOLIDATED CASH FLOW STATEMENT**  
**Year ended 31 December 2003**

	Notes	£'000	2003 £'000	£'000	2002 £'000
<b>Net cash inflow from operating activities</b>	1		1,997		241
<b>Returns on investments and servicing of finance</b>					
Interest received		12		37	
Interest paid		(183)		(152)	
Dividends paid to minority shareholders in subsidiary undertakings		-		(15)	
<b>Net cash outflow from returns on investments and servicing of finance</b>			(171)		(130)
<b>Taxation – tax paid</b>			(286)		(243)
<b>Capital expenditure and financial investment</b>					
Payments to acquire tangible fixed assets		(224)		(198)	
<b>Net cash outflow for capital expenditure</b>			(224)		(198)
<b>Acquisitions and disposals</b>					
Purchase of businesses		(1,677)		-	
<b>Net cash outflow from acquisitions and disposals</b>			(1,677)		-
<b>Equity dividends paid</b>			(37)		-
<b>Net cash outflow before financing</b>			(398)		(330)
<b>Financing</b>					
Issue of new loan stock		35		35	
Raising of long term loan		1,200		-	
Repayment of loan		(197)		-	
(Decrease)/increase in factoring balances		(304)		419	
Capital elements of hire purchase contracts		(15)		(13)	
<b>Net cash inflow from financing</b>			719		441
<b>Increase in cash in the year</b>	3		321		111

**NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**  
**Year ended 31 December 2003**

**1. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	2003 £'000	2002 £'000
Operating profit	817	709
Depreciation of tangible assets	235	259
Loss on disposal of tangible fixed assets	3	-
Loss on disposal of intangible fixed assets	17	-
Amortisation of goodwill	273	84
Decrease/(increase) in debtors	83	(1,000)
Increase in creditors	569	189
	<u>1,997</u>	<u>241</u>
<b>Net cash inflow from operating activities</b>	<u><u>1,997</u></u>	<u><u>241</u></u>

**2. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT**

	2003 £'000	2002 £'000
Increase in cash in the year	321	111
Cash inflow from increase in debt	(719)	(441)
	<u>(398)</u>	<u>(330)</u>
Change in net debt resulting from cash flows	(398)	(330)
Conversion and cancellation of loan stock	97	149
	<u>(301)</u>	<u>(181)</u>
Opening net debt	(985)	(804)
	<u>(1,286)</u>	<u>(985)</u>
Closing net debt	<u><u>(1,286)</u></u>	<u><u>(985)</u></u>

**3. ANALYSIS OF NET DEBT**

	1 January 2003 £'000	Cash flow £'000	Other non-cash changes £'000	31 December 2003 £'000
Cash at bank and in hand	2,187	(1,179)	-	1,008
Overdraft	(1,500)	1,500	-	-
	<u>687</u>	<u>321</u>	<u>-</u>	<u>1,008</u>
Amounts owed to factors	(1,561)	304	-	(1,257)
Loan stock	(94)	(35)	97	(32)
Finance leases	(17)	15	-	(2)
Long term loans	-	(1,003)	-	(1,003)
	<u>(985)</u>	<u>(398)</u>	<u>97</u>	<u>(1,286)</u>
	<u><u>(985)</u></u>	<u><u>(398)</u></u>	<u><u>97</u></u>	<u><u>(1,286)</u></u>

**NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**  
**Year ended 31 December 2003**

**4. ACQUISITIONS**

Acquisitions during the year contributed £194,000 to the group's net operating cash flows, paid £73,000 in respect of returns on investments and servicing of finance and utilised £15,000 for capital expenditure.

## NOTES TO THE ACCOUNTS

### Year ended 31 December 2003

#### 1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

##### Accounting convention

The financial statements are prepared under the historical cost convention.

##### Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December 2003. The results of subsidiaries sold or acquired are included in the profit and loss account up to, or from the date control passes. Intra-group transactions and profits are eliminated fully on consolidation.

##### Turnover

Turnover represents amounts receivable for services net of VAT and trade discounts.

##### Goodwill

Positive and negative goodwill represent the difference between the cost of acquisition and the fair value of the separable net assets of the businesses acquired. Positive and negative goodwill are amortised through the profit and loss account in equal annual instalments over their estimated useful lives, which are between 10 and 20 years. The directors review the period of amortisation of goodwill on an annual basis. Where it is believed the carrying value of goodwill suffers any impairment, the fall in value is charged immediately to the profit and loss account.

##### Tangible fixed assets

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Leasehold property	over the term of the lease
Fixtures, fittings and equipment	over 1 to 2 years
Motor vehicles	over 5 years

##### Investments

Investments held as fixed assets are stated at cost less provision for any impairment in value.

##### Deferred taxation

Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

##### Leases

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

Operating lease rentals are charged to income in equal annual amounts over the lease term.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2003**

**1. ACCOUNTING POLICIES (continued)**

**Pension costs**

Pension costs charged to the profit and loss account relate to a defined contributions scheme. The assets of the scheme are held separately from those of the group. Contributions to the scheme are charged to the profit and loss account as they become due for payment.

**2. TURNOVER**

The turnover and pre-tax profit of the group, all of which arises in the United Kingdom, is attributable to one activity.

**3. ANALYSIS OF CONTINUING AND DISCONTINUED OPERATIONS**

	2003 Continuing £'000	2003 Discontinued £'000	2003 Total £'000	2002 Continuing £'000	2002 Discontinued £'000	2002 Total £'000
Turnover	28,534	833	29,367	21,845	1,057	22,902
Cost of sales	(18,299)	(479)	(18,778)	(13,952)	(347)	(14,299)
Gross profit	10,235	354	10,589	7,893	710	8,603
Administrative expenses	(9,368)	(404)	(9,772)	(7,120)	(774)	(7,894)
Operating profit/(loss)	867	(50)	817	773	(64)	709

The amounts in 2003 for continuing operations include the following amounts in relation to acquisitions: turnover £1,402,000, cost of sales £nil, administrative expenses £1,231,000 and operating profit £171,000.

**4. ACQUISITION**

On 1 January 2003 the group, through a subsidiary company, acquired the McCall business. The following table sets out the assets acquired. No fair value adjustments were necessary following a review of the assets acquired.

	<b>£'000</b>
Tangible fixed assets	40
Goodwill	1,460
	<u>1,500</u>
Satisfied by – cash consideration	<u>1,500</u>

Due to the fact that the McCall business was included in a partnership which did not prepare statutory accounts, it is not possible to disclose the summarised profit and loss account for the year ended 31 December 2002.

Also, on 1 November 2003 the group, through a subsidiary company, acquired the Hadleigh Sales Link business. The group acquired goodwill of £75,000 for cash consideration of £60,000 and deferred consideration recorded as £15,000, but which could be up to £30,000 depending on the performance of the business. No fair value adjustments have been made. The business achieved a profit after taxation and minority interests of £84,000 for the year ended 31 October 2003 (2002 - £24,000).

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2003**

**5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

	2003 £'000	2002 £'000
<b>Directors' remuneration</b>		
Emoluments for qualifying services	196	187
Company pension contributions to money purchase scheme	8	8
	<u>204</u>	<u>195</u>

The number of directors accruing benefits under money purchase pension scheme arrangements was 2 (2002 - 2).

	2003 No.	2002 No.
<b>Average monthly number of persons employed (including directors)</b>		
Sales and distribution	161	154

	2003 £'000	2002 £'000
<b>Staff costs during the year (including directors)</b>		
Wages and salaries	7,841	6,544
Social security costs	606	573
Pension costs	20	37
	<u>8,467</u>	<u>7,154</u>

**6. OPERATING PROFIT**

	2003 £'000	2002 £'000
<b>Operating profit is after charging:</b>		
Depreciation of tangible assets – owned assets	235	259
Loss on sale of tangible fixed assets	3	-
Loss on sale of intangible fixed assets	17	-
Operating lease charges - land and buildings	615	534
Amortisation of goodwill	273	84
Exceptional legal and professional costs	45	134
Exceptional redundancy costs	99	-
Auditors' remuneration		
Audit fees	48	50
Other services	26	15
	<u>          </u>	<u>          </u>

**7. INTEREST RECEIVABLE AND SIMILAR INCOME**

	2003 £'000	2002 £'000
Bank interest	62	55
	<u>          </u>	<u>          </u>

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2003**

**8. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
On amounts payable to factors	90	149
Bank loans and overdrafts	92	-
Finance leases and hire purchase contracts	1	3
Exceptional loss arising on the deemed partial disposal of subsidiaries following conversion of convertible debt	13	100
	<u>196</u>	<u>252</u>

**9. TAX ON PROFIT ON ORDINARY ACTIVITIES**

**(a) Tax on profit on ordinary activities**

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
<b>Current tax</b>		
United Kingdom corporation tax at 30% (2002 – 30%) based on the profit for the year	307	284
Adjustments in respect of prior periods	(2)	(60)
Total current tax	<u>305</u>	<u>224</u>
<b>Deferred tax</b>		
Timing differences, origination and reversal	(59)	(16)
	<u>246</u>	<u>208</u>

**(b) Factors affecting current tax charge for the year**

The tax assessed for the period is higher than that resulting from applying the standard rate of corporation tax in the UK (30%). The differences are explained below:

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Profit on ordinary activities before taxation	<u>683</u>	<u>512</u>
Tax on profit on ordinary activities at standard rate	205	154
Effects of:		
Disallowed expenses and non-taxable income	90	90
Capital allowances in excess of depreciation	3	27
Utilisation of tax losses	14	(5)
Movement in short term timing differences	-	(2)
Deferred tax asset not recognised in respect of losses	-	20
Other	(5)	-
Adjustments to tax charge in respect of previous periods	(2)	(60)
Total actual amount of current tax	<u>305</u>	<u>224</u>

Trading losses available to carry forward in subsidiary undertakings total £106,000.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2003**

**10. EQUITY DIVIDENDS PROPOSED**

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Final proposed - 0.15p per ordinary share (2001 - 0.1p)	56	37
	<u>56</u>	<u>37</u>

**11. INTANGIBLE FIXED ASSETS**

	<b>Positive goodwill</b>	<b>Negative goodwill</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>The Group</b>			
<b>Cost</b>			
At 1 January 2003	1,842	(401)	1,441
Additions	1,760	-	1,760
Disposals	(20)	-	(20)
At 31 December 2003	<u>3,582</u>	<u>(401)</u>	<u>3,181</u>
<b>Amortisation</b>			
At 1 January 2003	298	(401)	(103)
Charge for the year	273	-	273
Disposal	(3)	-	(3)
At 31 December 2003	<u>568</u>	<u>(401)</u>	<u>167</u>
<b>Net book value</b>			
At 31 December 2003	<u>3,014</u>	<u>-</u>	<u>3,014</u>
At 31 December 2002	<u>1,544</u>	<u>-</u>	<u>1,544</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2003**

**12. TANGIBLE FIXED ASSETS**

	Leasehold property £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
<b>The Group</b>				
<b>Cost</b>				
At 1 January 2003	40	1,067	36	1,143
Acquisitions (see note 4)	-	40	-	40
Additions	-	224	-	224
Disposals	-	(25)	(34)	(59)
At 31 December 2003	40	1,306	2	1,348
<b>Accumulated depreciation</b>				
At 1 January 2003	17	848	21	886
Charge for the year	2	222	11	235
Disposals	-	(24)	(32)	(56)
At 31 December 2003	19	1,046	-	1,065
<b>Net book value</b>				
At 31 December 2003	21	260	2	283
At 31 December 2002	23	219	15	257
<b>The Company</b>				
<b>Cost</b>				
At 1 January 2003		82	26	108
Additions		42	-	42
Disposals		-	(26)	(26)
At 31 December 2003		124	-	124
<b>Accumulated depreciation</b>				
At 1 January 2003		67	17	84
Charge for the year		27	8	35
Disposals		-	(25)	(25)
At 31 December 2003		94	-	94
<b>Net book value</b>				
At 31 December 2003		30	-	30
At 31 December 2002		15	9	24

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2003**

**13. INVESTMENTS HELD AS FIXED ASSETS**

<b>The Company</b>	<b>Shares in subsidiary undertakings £'000</b>
<b>Cost</b>	
At 1 January 2003	2,631
Additions	560
Disposals	(21)
At 31 December 2003	<u>3,170</u>
<b>Impairment</b>	
At 1 January 2003	115
Charge for the year	188
At 31 December 2003	<u>303</u>
<b>Net book value</b>	
At 31 December 2003	<u>2,867</u>
At 31 December 2002	<u>2,516</u>

The additions during the year related to further investment and acquisition of minority interests in existing subsidiary undertakings.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2003**

**13. INVESTMENTS HELD AS FIXED ASSETS (continued)**

The company holds shares in the following principal subsidiary trading companies:

<b>Company</b>	<b>Share held Class</b>	<b>%</b>	<b>Nature of business</b>
<b>Financial Service Sector</b>			
Mansion House Executive Limited	"A&B" Ordinary	100	Recruitment consultants
Lindsey Morgan Associates Limited	"A" Ordinary	54	Recruitment consultants
Lime Street Recruitment Limited	"A" Ordinary	58	Recruitment consultants
<b>Supply Chain Sector</b>			
DriveLink (South East) Limited	"A&B" Ordinary	56	Recruitment consultants
DriveLink (London) Limited	"A" Ordinary	63	Recruitment consultants
MVP (Search & Selection) Limited	"A&B" Ordinary	67	Recruitment consultants
Drivelink (Midlands) Limited	"A" Ordinary	72	Recruitment consultants
<b>Construction and Property Services Sector</b>			
Technical and Management Resources Limited	"A&B" Ordinary	81	Recruitment consultants
TMR Bristol Limited	"A&B" Ordinary	100	Recruitment consultants
TMR Midlands Limited	"A" Ordinary	65	Recruitment consultants
Teamsales Limited	"A&B" Ordinary	80	Recruitment consultants
MC <sup>2</sup> Management Consulting Limited	"A" Ordinary	78	Recruitment consultants
<b>Public Services Sector</b>			
Healthcare First Limited	"A" Ordinary	54	Recruitment consultants
Social Work Associates Limited	"A" Ordinary	59	Recruitment consultants
<b>Specialist Brands Sector</b>			
Alanti Limited	"A&B" Ordinary	100	Recruitment consultants
Greycoat Placements Limited	"A&B" Ordinary	91	Recruitment consultants
McCall Limited	"A&B" Ordinary	58	Recruitment consultants

All companies are incorporated in Great Britain and are registered in England and Wales. All companies operate in the United Kingdom.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2003**

**14. DEBTORS**

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade debtors	4,038	4,371	1	-
Amounts owed by subsidiary undertakings	-	-	1,435	370
Other debtors	723	532	279	254
Prepayments and accrued income	471	358	95	29
	<u>5,232</u>	<u>5,261</u>	<u>1,810</u>	<u>653</u>

The trade debtors balance above includes factored debts of £3,370,000 (2002 - £3,708,000).

Amounts owed by subsidiary undertakings include amounts falling due after more than one year of £700,000 (2002 - £nil).

Included in other debtors is a deferred tax asset of £122,000 (2002 - £68,000) for the group. This comprises £88,000 (2002 - £66,000) in respect of timing differences arising on the excess of depreciation over capital allowances, and £34,000 (2002 - £2,000) in respect of trading losses and other short term timing differences.

**15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Bank loans and overdrafts (note 16)	225	1,500	556	1,707
Amounts owed to factors	1,257	1,561	-	-
Net obligations under finance lease and hire purchase contracts	2	12	-	5
Trade creditors	373	114	43	13
Amounts owed to subsidiary undertakings	-	-	672	613
Current corporation tax	149	130	-	-
Other taxes and social security	1,436	1,201	27	11
Other creditors	181	230	2	2
Accruals and deferred income	691	577	25	10
Proposed dividend	56	37	56	37
	<u>4,370</u>	<u>5,362</u>	<u>1,381</u>	<u>2,398</u>

Bank loans, overdrafts and amounts owed to factors are secured by a fixed charge over the book debts of the group and company.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2003**

**16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Bank loans	778	-	778	-
Net obligations under finance lease and hire purchase contracts	-	5	-	-
Loan stock	32	94	-	-
	<u>810</u>	<u>99</u>	<u>778</u>	<u>-</u>

The bank loan is secured by a first fixed charge over all book and other debts given by the company and its subsidiaries.

The loan stock is convertible, redeemable, interest free and unsecured. It may be converted at the holder's option into fully paid "B" ordinary shares of 1p each in subsidiary companies at times between 1 January 2008 to 31 December 2012. If the loan stock is not converted it will be redeemable at par at times between 1 January 2008 to 31 December 2012.

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
<b>Net obligations under finance lease and hire purchase contracts</b>				
Repayable within one year	2	12	-	5
Repayable between one and five years	-	5	-	-
	<u>2</u>	<u>17</u>	<u>-</u>	<u>5</u>
<b>Bank loan</b>				
Repayable within one year	225	-	225	-
Repayable between one and two years	238	-	238	-
Repayable between two and five years	540	-	540	-
	<u>1,003</u>	<u>-</u>	<u>1,003</u>	<u>-</u>

**17. CALLED UP SHARE CAPITAL**

	2003 £'000	2002 £'000
<b>Authorised</b> 75,000,000 ordinary shares of 2p each	<u>1,500</u>	<u>1,500</u>
<b>Called up, allotted and fully paid</b> 37,537,892 ordinary shares of 2p each (2002 - 36,713,143)	<u>751</u>	<u>734</u>

During the year, 824,749 ordinary shares of 2p each were issued for 17.5p each as consideration for an additional 18.9% investment in Technical and Management Resources Limited.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2003**

**18. STATEMENT OF MOVEMENT ON RESERVES**

	Share premium account £'000	Profit and loss account £'000
<b>Group</b>		
Balance at 1 January 2003	1,540	748
Retained profit for the year	-	218
On issue of shares in the year (note 17)	128	-
	<u>1,668</u>	<u>966</u>
Balance at 31 December 2003	<u>1,668</u>	<u>966</u>
<b>Company</b>		
Balance at 1 January 2003	1,540	21
Retained profit for the year	-	108
On issue of shares in the year (note 17)	128	-
	<u>1,668</u>	<u>129</u>
Balance at 31 December 2003	<u>1,668</u>	<u>129</u>

Included in both the company and the group share premium account is an amount of £854,000 (2002 - £854,000) regarding premiums arising on shares issued subject to the provisions of section 131 of the Companies Act 1985.

**19. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS**

	2003 £'000	2002 £'000
<b>Group</b>		
Profit for the financial year	274	149
Equity dividends proposed	(56)	(37)
Net proceeds from issue of shares	145	916
	<u>363</u>	<u>1,028</u>
<b>Net addition to equity shareholders' funds</b>	<u>363</u>	<u>1,028</u>
Opening equity shareholders' funds	3,022	1,994
	<u>3,385</u>	<u>3,022</u>
<b>Closing equity shareholders' funds</b>	<u>3,385</u>	<u>3,022</u>
<b>Company</b>		
Profit for the financial year	164	220
Equity dividends proposed	(56)	(37)
Net proceeds from issue of shares	145	916
	<u>253</u>	<u>1,099</u>
<b>Net addition to equity shareholders' funds</b>	<u>253</u>	<u>1,099</u>
Opening equity shareholders' funds	2,295	1,196
	<u>2,548</u>	<u>2,295</u>
<b>Closing equity shareholders' funds</b>	<u>2,548</u>	<u>2,295</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2003**

**20. FINANCIAL COMMITMENTS**

At 31 December 2003 the group had annual commitments under non-cancellable operating leases as follows:

	<b>Land and buildings</b>	
	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Leases which expire:		
Within one year	160	456
Within one to two years	154	-
Within two to five years	117	-
After more than five years	88	-
	<u>519</u>	<u>456</u>

**21. CONTINGENT LIABILITIES**

Cross guarantees exist in respect of bank loans and overdrafts between all of the group companies.

**22. BASIC EARNINGS PER SHARE**

	<b>2003</b>	<b>2002</b>
	<b>No.</b>	<b>No.</b>
Ordinary shares of 2 pence each (weighted average)	<u>37,125,518</u>	<u>35,159,026</u>
	<b>£'000</b>	<b>£'000</b>
Profit for the financial year	<u>274</u>	<u>149</u>

Based on current trading conditions, the directors are of the opinion that there would be no dilution to the earnings per share figure resulting from subsidiary minority shareholders trading up.

**23. PROFIT OF PARENT COMPANY**

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year was £164,000 (2002 - £220,000).

**24. RELATED PARTY TRANSACTIONS**

There were no material related party transactions during the year.

Intra group management charges and net interest charges, which have been removed on consolidation, amounted to £570,000 (2002 - £540,000) and £173,000 (2002 - £46,000) respectively.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2003**

**25. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS**

The group's policy is to make use of short term borrowings for all working capital requirements before long term finance is considered, in order to minimise the cost of capital, and accordingly, the only financial instruments within the accounts (short term debtors and creditors being excluded) are bank overdrafts, amounts advanced under factoring agreements, bank loans and loan stock.

Details of the bank loans and loan stock are given in note 17 to the accounts and bank overdrafts and amounts advanced under factoring agreements are detailed in note 15 to the accounts. There are no material differences between the carrying and fair values of the group's financial instruments.

At 31 December 2003 and 31 December 2002, the company had no currency exposure. At 31 December 2003, the group had undrawn committed borrowing facilities (expiring within one year) of £1,000,000 (2002 - £187,000).

**26. POST BALANCE SHEET EVENTS**

On 1 January 2004, the group completed its 66% acquisition of Fast Track Management Services Limited for consideration made up of cash of £1million, shares of £100,000 and deferred consideration up to a maximum of £880,000.

Also on 1 January 2004 the group acquired 66% of Bar 2 Limited for nominal consideration.

**27. DIRECTORS' INTERESTS**

In addition to the shareholdings in the company disclosed in the directors' report, N C Hall-Palmer had the following interests in subsidiary companies:

	Ordinary 'B' shares of 1p each		Deferred shares of £1 each	
	2003 No.	2002 No.	2003 No.	2002 No.
Lindsey Morgan Associates Limited	1,500	1,500	500	500
Drivelink (South East) Limited	400	400	400	400
MVP (Search & Selection) Limited	1,011	1,000	-	-
TMR Bristol Limited	-	233	-	233
TMR Midlands Limited	500	-	-	-
Healthcare First Limited	485	-	-	-
MDA Recruitment Limited	276	250	250	250
Social Work Associates Limited	250	-	-	-

**ADDITIONAL INFORMATION**  
**Year ended 31 December 2003**

The additional financial information on page 38 is provided in order to reconcile from statutory financial information to the adjusted results disclosed in the financial highlights section on page 2 and referred to in the Chairman and Chief Executive's Statement and the Financial Review. Whilst it has been prepared from the accounting records of the group, it does not form part of the audited financial statements.

**ADDITIONAL INFORMATION**  
**Year ended 31 December 2003**

**Reconciliation of statutory financial information to adjusted information included within the financial highlights**

	2003 £'000	2002 £'000	2001 £'000	2000 £'000	1999 £'000
Operating profit	817	709	732	589	151
Add back:					
Goodwill amortisation	273	84	14	10	-
Exceptional legal and professional costs	45	134	-	-	-
Exceptional redundancy costs	99	-	-	-	-
Exceptional write back of negative goodwill	-	-	(219)	-	-
Adjusted operating profit	<u>1,234</u>	<u>927</u>	<u>527</u>	<u>599</u>	<u>151</u>
(Loss)/profit on disposal of unlisted investments	-	-	(7)	16	(33)
Interest receivable and similar income	62	55	101	59	30
Interest payable and similar charges	(196)	(252)	(134)	(100)	(53)
Add back:					
Exceptional loss on deemed subsidiary disposal	13	100	-	-	-
Adjusted profit before tax	<u>1,113</u>	<u>830</u>	<u>487</u>	<u>574</u>	<u>95</u>
Taxation (*)	(319)	(248)	(158)	(112)	(108)
Minority interests (*)	(217)	(184)	(179)	(142)	(54)
Adjusted profit after tax and minority interests	<u><u>577</u></u>	<u><u>398</u></u>	<u><u>150</u></u>	<u><u>320</u></u>	<u><u>(67)</u></u>
Adjusted earnings/(loss) per share (pence)	<u><u>1.55</u></u>	<u><u>1.13</u></u>	<u><u>0.45</u></u>	<u><u>0.95</u></u>	<u><u>(0.24)</u></u>

(\*) – adjusted as necessary for tax and minority interest impact from goodwill and exceptional item adjustments.